

City of Detroit

CITY COUNCIL

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TO: Pam Scales, Director
Budget Department (Non-Departmental)

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: April 25, 2008

RE: 2008-2009 Budget Analysis

24.

Attached is our budget analysis regarding the Non-Departmental/Capital budget for the upcoming 2008-09 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Monday, April 28, 2008 at 2:00 p.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Council Members and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

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Attachment

cc: Council Members
Council Divisions
Auditor General's Office
Norman White, Chief Financial Officer
Pam Scales, Budget Department
Renee Short, Budget Department
Kerwin Wimberly, Mayor's Office

Non-Departmental (35)

FY 2008-09 Budget Analysis by the Fiscal Analysis Division

Summary

Appropriations

The Non-Departmental agency contains appropriations and revenues for the General Fund not specific to any one department. The Non-Departmental agency budget contains subsidies to various organizations.

The Non-Departmental agency includes funding for a number of organizational units including positions, and subsidies to enterprise agencies.

Also included in Non-Departmental are appropriations, offset with equal revenue amounts for organizations whose employees are included and paid through the city payroll system, such as the Greater Detroit Resource Recovery Authority and Detroit Building Authority.

Over the years, and on an increasing basis, programs with employees have been added to the Non-Departmental budget. When programs with employees are included in Non-Departmental, the real line of reporting is blurred, in fact, completely hidden by the presentation. This allows the administration to obfuscate the number of employees in executive organizations. Consideration should be given to the re-alignment of these organizations into the agencies where the employees ultimately report.

The total appropriations in Non-Departmental are decreasing by \$90.5 million, a 19.28% decrease, from \$469.5 million to \$379.0 million.

Revenues

The Non-Departmental agency contains the major revenues supporting the General Fund that are not specific to any one department.

The recommended budget includes estimated revenues of \$1.23 billion, which is \$.54.9 million less than the current year's budgeted revenue in Non-Departmental, a 4.45% decrease.

Due to the magnitude of the major revenues that are budgeted in Non-Departmental, the Auditor General's Office and City Council Fiscal Analysis Division will provide major revenue account analysis in separate reports, including the Administration's rational for revenue projections. The administration needs to provide a number of worksheets supporting their projected revenues both for the current year surplus/deficit estimate and next year's budget. These are required because the information is not available in the financial reporting system. The supplementary worksheets will need to be reconciled to the financial reporting system. It is the Fiscal Analysis Division intent to provide Council with an updated comprehensive surplus/deficit estimate through March 2008 and major revenue analysis for the 2008-09 budget at the start of Council's executive session, highlighting the major differences. This report includes only highlights and summarization of the major revenues projected for FY 2007-08.

2007-08 Surplus/(Deficit)

The 2007-08 surplus/deficit estimates submitted by the Budget Department staff indicates a \$2.6 million appropriation deficit, and a \$0.6 million revenue surplus, for a total deficit of \$2.0 million in the Non-Departmental agency. The Fiscal Analysis Division is in continuing discussions with the Budget Department to clarify the make-up of their estimates.

Personnel and Turnover Savings

Following is information by appropriation comparing budgeted FY 2007-08 positions, March 31, 2008 filled positions and FY 2008-09 recommended positions.

<u>Appropriation/Program</u>	<u>Redbook Positions FY 2007-08</u>	<u>Filled Positions 3/31/2008</u>	<u>Mayor's Budget Positions FY 2008-09</u>	<u>Over/(Under) Actual to 07/08 Budget</u>
Non-Departmental (35):				
00276 Greater Detroit Resource Recov. Autho.	11	8	11	(3)
00277 Detroit Building Authority	9	9	9	0
00972 Cable Communications Comm.	8	4	8	(4)
00973 Government Access	2	2	2	0
10397 Board of Ethics	2	2	2	0
11177 DHRMS	12	13	15	1
TOTAL	<u>44</u>	<u>38</u>	<u>47</u>	<u>(6)</u>

The Mayor's 2008-09 Recommended Budget does not include any turnover savings for positions included in the Non-Departmental budget.

Budgeted Professional and Contractual Services by Activity

Non-Departmental (35)

<u>Budgeted Professional and Contractual Services by Activity</u>	<u>FY 2007-08 Budget</u>	<u>FY 2008-09 Recommended</u>	<u>Increase (Decrease)</u>
Non-Departmental	\$ 57,856	\$ 58,922	\$ 1,066
Board of Ethics	-	-	-
Cable Commission	521,592	531,592	10,000
Detroit Building Authority	-	-	-
Greater Detroit Resource Recovery	-	-	-
DHRMS	10,140	111,700	101,560
Contributions, Subsidies & Advances	250,000	250,000	-
Total	<u>\$ 839,588</u>	<u>\$ 952,214</u>	<u>\$ 112,626</u>

Appropriation Explanation and Significant Funding Changes by Appropriation

Appro. Program

00199	Public Commemorations	This \$3,000 appropriation provides the funding for the purchase of flags for placement on Veteran's graves by veteran organizations on Memorial Day.
00204	Organization For Cities	This appropriation is decreasing by \$65200. This appropriation includes dues and memberships in the City's name to the some or all of the following organizations Michigan Municipal League, SEMCOG, U.S. Conference of Mayors, National League of Cities, Government Finance Officers Association, Conference of Black Mayors, and International Great Lake/St. Lawrence Conference.
00276	Greater Detroit Resource Recovery Authority (GDRRA)	The appropriation for GDRRA is Increasing by \$14759 and covers the cost of the GDRRA staff on the city payroll. There is estimated revenue from GDRRA in an amount equal to this appropriation.
00277	Detroit Building Authority	The appropriation for the Detroit Building Authority is increasing by \$18133. There is an estimated revenue amount from the DBA in an equal amount to offset this appropriation.
00341	Tax Support – DOT	The appropriation provides the general fund support necessary for the Department of Transportation to conduct operations. The subsidy to DOT is increasing by \$4.9 million, or 6.12%

The continuation of general tax dollars in support of operations that should be self-sufficient should be reviewed. If the total subsidy cannot be eliminated all at once, the agency should be put on notice that the subsidy will be eliminated over a manageable timetable, possibly 3 years. Another strategic alternative to consider for DOT would be an agreement for the consolidation of transportation systems in the region. A goal that recently has been overshadowed by other issues, but needs to be brought to the forefront by the City of Detroit. This would relieve the City of Detroit from the direct financial drain that DOT has become on general tax dollars.

00347 Airport Subsidy

The appropriation is increasing by \$346,728 to \$928,865. This is a 60% increase in the subsidy. Council will recall that the Airport subsidy was removed from the budget two or three years ago, but then mid year transfers were required to provide support for the Airport. The subsidy was again included in the current budget and the recommended budget represents a substantial percentage increase.

The direct benefits or even indirect, if any, to the citizens of Detroit compared to the on going subsidy (including allocation of capital) required by the Airport, makes this a luxury that the City may not be able to afford any longer.

For the past few years it has been promised that an operator can be found to operate the facility at a profit, but the promise remains unfulfilled.

It may be the time to plan an orderly closer of the Airport considering potential alternate development options for the land. Recently Chicago discontinued the operations of Meigs Airport within their city.

00396 World Trade Program

This appropriation is for the City portion of the cost of the Detroit Port Authority operations.

00362 Tax Increment Districts

The appropriation is used to allow the payment of taxes collected for the various increment districts to be made. The appropriation is decreasing by \$1.7 million, a 7.67% decrease.

00852 Claims Fund (Insurance Premium)

This appropriation is decreasing by \$1.2 million. The appropriation represents the General Fund portion to adequately provide funding for the Self-Insurance Claim Fund. When originally established a five-year history of claims payouts was used to determine the required annual contribution. The administration has been reducing the amount contributed in the past few years. The continued reduction in annual payment to the fund may result in inadequate balances in the fund.

00939	Supp. Fee (GDRRA)	The supplemental fees relate to the sale-leaseback transaction involving the sale of the Greater Detroit Resource Recovery facility. The city sold the facility to private investors on October 23, 1991. As a part of the transaction, the city agreed to pay an outside operator of the facility a supplemental fee equal to the amount of the lease payment the outside operator pays to the private investors. This appropriation represents the supplemental fee to the outside operator. As part of the purchase price, the private investors took on a mortgage. The mortgage payment to the city equals the amount of the lease payment, which equals the supplemental fee. Bond counsel recommended that the transaction flow be reflected in the Non-Departmental budget starting in FY 1995-96. The result of the transaction has no affect on the General Fund. The appropriation pass-through increases in 2008-09 by \$5.1 million. The last debt service payment is scheduled for October 2009.
00972	Cable Communications Commission	The appropriation is increasing by \$49,862. This appropriation funds the main operation of the Cable Commission.
00973	Government Access	The appropriation is increasing by \$18,006. The appropriation funds the government access portion of the Cable Commission.
05414	Museum of African-American History	This appropriation of \$1.950 million represents a subsidy to the museum for operational costs (salaries, contractual services, marketing and public relations). The recommended budget eliminates this appropriation.
10102	Benefits Administration	A new appropriation in the amount of \$750,000 was added in the current budget. The appropriation is being eliminated in the recommended budget.
10633	Internal Service Fund-Vehicles	The appropriation in the Internal Service Fund - Vehicles is decreasing by \$10.7 million. This appropriation equals the amount of vehicles to be purchased by the fund during the year. The appropriation is supported by the revenue from the sale of bonds to finance the purchase of the vehicle.
10634	City Vehicles – Lease Purchase	The appropriation in the General Fund of \$16.0 million is decreasing by \$2.6 million. The appropriation allows the payment, as a lease, to the Internal Service Fund for vehicles previously purchased by the fund and financed with bonds that are currently being used for operations.
12370	Internal Service Fund-Vehicle Debt Service	The appropriation in the Internal Service Fund for vehicles that makes the payment of the principal and interest on bonds previously issued by the internal service fund for vehicles purchases. This appropriation ties directly to the general fund appropriation 10634.

11177	Program Management Office	The appropriation is increasing by \$2.0 million to a total of \$10.6 million and 3 new positions are being added. The appropriation includes both the staff and operating costs of the program office (DRMS and DHRMS) and the debt service on the GE capital financing of the project.
11519	Fiscal Stabilization Bond Expense	The appropriation includes the interest and principal on the \$61 million deficit funding bonds sold during the 2003-04 year to address the 2002-03 deficit of \$69 million. The deficit funding bond proceeds were used in addition to the \$8 million in the budget stabilization fund to cover the operating deficit of \$69 million. The appropriation is increasing by \$21.4 million to \$40.2 million. This large increase in cost reflects the back loading structure of the repayment schedule used when the bonds were originally sold.
00992 & 12651	DIA Improvements & GO Bonds DIA Improvements 08-09	The appropriation provides for capital re-investment earnings that is interest earned on bond sale proceeds, to the Detroit Institute of Arts for capital expenses. The amount is increasing by \$1,000 to a total of \$100,000 in the recommended budget.
12163 & 12653	Historical – Capital	The budget increases by \$14.4, to a total of \$17.2 million for capital improvements at the Historical Museum.

Significant Revenue Changes by Appropriation and Source

<u>Appro.</u>	<u>Program</u>	
04739 401110	General Revenue Property Tax	The projected revenue of \$180.7 million for the 2008-09 property tax collection reflects a \$3.8 million, 2.15% increase over the current year budget. The taxable value of property has increased by 1.5%, the projected collection rate factor is 95%.
402100	Prior Years Real Prop. Tax	The revenue account is increasing by \$2.1 million to a total of \$3.3 million. Previously a reduction in collections resulted from the changed process whereby local governments are required to forward all delinquent tax rolls to the county for collection. The tax year ending Dec. 31, 2003 was the first group of delinquent taxes forwarded to the county for collection under this new process. The new budget anticipates an increase.
402200	Prior Years Pers. Prop. Tax	The estimated collection in the account is decreasing by \$4.8 million to a total of \$0.7 million.

404100	Municipal Income Tax	The decrease of \$2.6 million brings the projected revenue for income tax to \$275.0 million. The tax rate will not be reduced as the State Act requiring a reduction in the rate has been amended. The administration's real assumed growth for income tax is negative .01% of the projected collections for the current year. However, the current year estimates by the administration may be overly optimistic. Budget to budget the decrease would represent 0.9% reduction in collections.
405200 405300	Wagering Tax Percentage Payment	Combined these two revenue accounts are increasing by \$1.5 million, to a total of \$194.8 million. This increase represents less than 0.7% growth the revenues budget to budget.
422141 422142	State Revenue Sharing	The total of these revenues is \$279.4 million. An increase of \$5.1 million. Part of the revenue (\$63.6 million) is funded constitutionally and fixed by formula. The other larger portion (\$215.8 million) is funded by state statute and also based on a formula. The formula for the distribution expires in September 2007, but was extended for one year through September 2008. The increase is based on the amount proposed to be included in the State's next budget. The State has used reductions in payment of revenue sharing to local governments to address State budget problems. Both the expiration of the distribution formula and the State's budget problem jeopardizes the statutory portion of this revenue.
06925	Temp Casino Site	This \$16.6 million represents the municipal service fee the casinos pay annually. They are required to pay the greater of \$4 million or 1.25% of net collections. The \$139,000 increase in collections represents only a 0.8% increase in revenue budget to budget.
12163 & 12653	Historical – Bonds & GO Bonds Historical Capital 08-09	The capital funding for the Historical Museum is increasing by \$14.4 million from \$2.8 million to \$17.2 million.

Issues and Questions

1. Provide for Council a listing of the organizations and dues for the organizations the city paid dues for the current 2007-08 fiscal year and in the recommended budget.
2. Explain the administration's policy on the operating subsidy for the Department of Transportation. The recommended budget increases the subsidy by \$4.9 million or 6.12%. As an enterprise operation, as costs change, the department should make adjustments to costs, or revenues to remain in balance, not rely solely on the general fund increasing the subsidy. What has the Transportation Department done, or what is planned to reduce costs or increase revenues to allow the general fund subsidy to be reduced in the short term, and eliminated in the long term?
3. What priority is the administration placing on making DOT self-supporting or merging with SMART? Are there any active negotiations? What effort is being made in Lansing to relieve the burden on Detroit taxpayers that support DOT in the amount of nearly \$85 million?
4. What is the cause of the 59.56%, or \$346,728 recommended increase in the operating subsidy to the Airport? Does the administration have a policy on how the subsidy to the Airport is determined?
5. Update Council on the process of securing an operator for the Airport. While it has been promised for at least a few years that an operator (profitable) could be found, what are the two or three main obstacles to running the facility at a profit? How can these obstacles be overcome? At what point should the City consider ceasing operations, or closure of the facility? Since the predictions of an operating agreement have not proven true. Even if the results would be to allow the FAA or other Federal agency, State or County to take it over?
6. In the surplus/deficit information you have provided the explanation for the variance in other expenses states "Prior Year Deficit increase of \$34.3 million offset by reduction in GM TIFA payment to Hamtramck. Provide the details on the reduction in GM TIFA payments to Hamtramck. For what period of time, and what amount is the reduction in payments related to? How was this overpayment identified? Can you provide Council with the language from the agreement and the erroneous and new calculations?
7. Provide for Council the current formula and Risk Management Fund claims analysis that supports the reduction in the payment to the Risk Management Fund.
8. A new appropriation was created in the current budget for Benefits Administration in the amount of \$750,000. In the recommended budget the appropriation is being eliminated. Was this a one-time project? Was the project completed? What were the results? Or does this appropriation appear in another agency? Which agency?
9. In appropriation 11177 Program Management Office, how much of the \$2.0 million increase is for retirement of the GE Capital financing of the project? When will the debt for this project be completely paid?

10. Provide the original timetable for the DHRMS implementation and the current status of the project. Have all of the critical implementation points been met thus far? If delays have occurred explain them and how the time will be made up in order to bring the project to completion as schedule and on time. Provide the total project expenditures to the project budget?
11. There are at a minimum of four appropriations that are identified as debt service, Fiscal Stabilization Bond Expense, 800 Megahertz Debt Service, PBX-Phone System Debt Service, and Interest on Short Term Borrowing. In addition there is debt service on vehicle purchases. Provide Council with the complete debt service schedule for each of these general fund borrowings through the period of payoff and the interest rate.
12. The budget for Prior Years Real Property Tax collections is increasing by \$2.1 million, a 174% increase. Since Wayne County took over the collection of delinquent property taxes this collections in the account have reduced. What is the basis for a change in this pattern?
13. What will the capital funds for the Historical Museum be used for? Does this \$17.2 million represent the last of the voter authorization bonds for the Historical Museum?
14. Can you explain the revenue amount of \$1.2 for Interest Short Term Borrowing? Why is this in a separate account from Investment Earnings that is recommended at \$6.0 million? Is it reasonable to anticipate \$7.2 million in income considering reduced cash balances and the investment environment? Provide Council with a history, suggested five years, of earnings in these accounts.
15. Concerning the appropriation and revenue for the Parking System Operating Advance, the budget presentation balances the amount. Over the last three to four years has the general fund subsidized the Parking System through these accounts? By year what has the subsidy been? Has or will the Parking System make up these amounts in future periods if operations allow?
16. Identify the revenue source for the \$550,622 PBX-Phone System Debt Service and the calculation of the amount. How much longer is the system financed for? Will this revenue continue until the financing is paid off?
17. Provide the detail breakdown on the revenue for staff services, and provide you're rational for charging staff services to any general fund supported operations if they are included in the revenue.

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Attachment – Proposed Vehicle List by Department for Vehicle Lease/Purchase Program

08-09				Agency	Fleet Management's Recommendation			
Agency	Division	Vehicle Detail	No.	Unit Cost	Request	No.	Unit Cost	Total
Fire		Pumper	14	430,000	6,020,000	4	\$430,000	\$ 1,720,000
		Ariel Platform	1	900,000	900,000	1	900,000	900,000
		EMS	16	115,000	1,840,000	16	135,000	2,160,000
								\$ 4,780,000
Police		Fully Marked Scout Car	150	48,737	7,310,550	100	\$ 48,737	\$ 4,873,700
		Semi-Marked Scout Car	50	48,401	2,420,050	50	48,401	2,420,050
								\$ 7,293,750
DPW								
	Solid Waste	Courville Automated	20	229,690	4,593,800	10	229,690	\$ 2,296,900
								\$ 2,296,900
Total								\$14,370,650